New Welfare-to-Work Program Helps Adjustment to Welfare Reform

Congress enacted major welfare reform legislation in 1996, devolving much of the responsibility upon the States. In 1997, Congress and the Administration restored certain benefits to legal immigrants and to disabled children. Medical assistance to children of low-income families was extended, and job training programs received additional funding. A Welfare-to-Work program was created in a bold experiment to bring welfare recipients with the most difficult circumstances into the productive labor force.

President Clinton signed into law the Personal Responsibility and Work Opportunity Reconciliation Act (P.L. 104-193) on August 22, 1996. It provided the most significant changes in welfare programs in 60 years (see *Rural Conditions and Trends*, Vol. 8, No. 1). It replaced a host of earlier programs, such as Aid to Families with Dependent Children (AFDC), Job Opportunities and Basic Skills Program (JOBS), and Emergency Assistance (EA), with the new Temporary Assistance for Needy Families (TANF) block grants to States. After decades of complaints about second- and third-generation welfare families and occasional scandals, the new program aimed to move away from cash assistance to families and toward integrating them into the productive work force.

Although most Americans probably visualize the poverty in the stricken center cities of this largely urbanized Nation, around 20 percent of welfare cases live in rural areas. Most of the case load is rural in 14 States—Alaska, Arkansas, Idaho, Kentucky, Mississippi, Montana, New Mexico, North Carolina, North Dakota, South Carolina, South Dakota, Vermont, West Virginia, and Wyoming. A considerable number of other States had rural areas of high welfare dependence. Central Appalachia, the Black Belt in the Southeast, the Mississippi Delta, and portions of the Southwest, Northern California, Washington, Montana, and Maine, and various Indian reservations across the country stand out in particular (fig. 1).

With the support of sustained economic growth, TANF surprised even many of its early supporters with its first-year success in reducing welfare cases between August 1996 and April 1997. The number of TANF recipients in Arkansas, for example, dropped by 5 percent, in Kentucky by 9 percent, in South Carolina by 24 percent, and in Tennessee by an amazing 27 percent. An ongoing concern, however, is the group of hardest-to-employ welfare cases, many of them in isolated rural areas. The Balanced Budget Act of 1997, signed by President Clinton on August 5, empowered the Department of Labor to give Welfare-to-Work grants to States and local communities. These funds were aimed at making it possible for even the hardest cases among TANF recipients to find and hold employment (see “Welfare-to-Work Grants”).

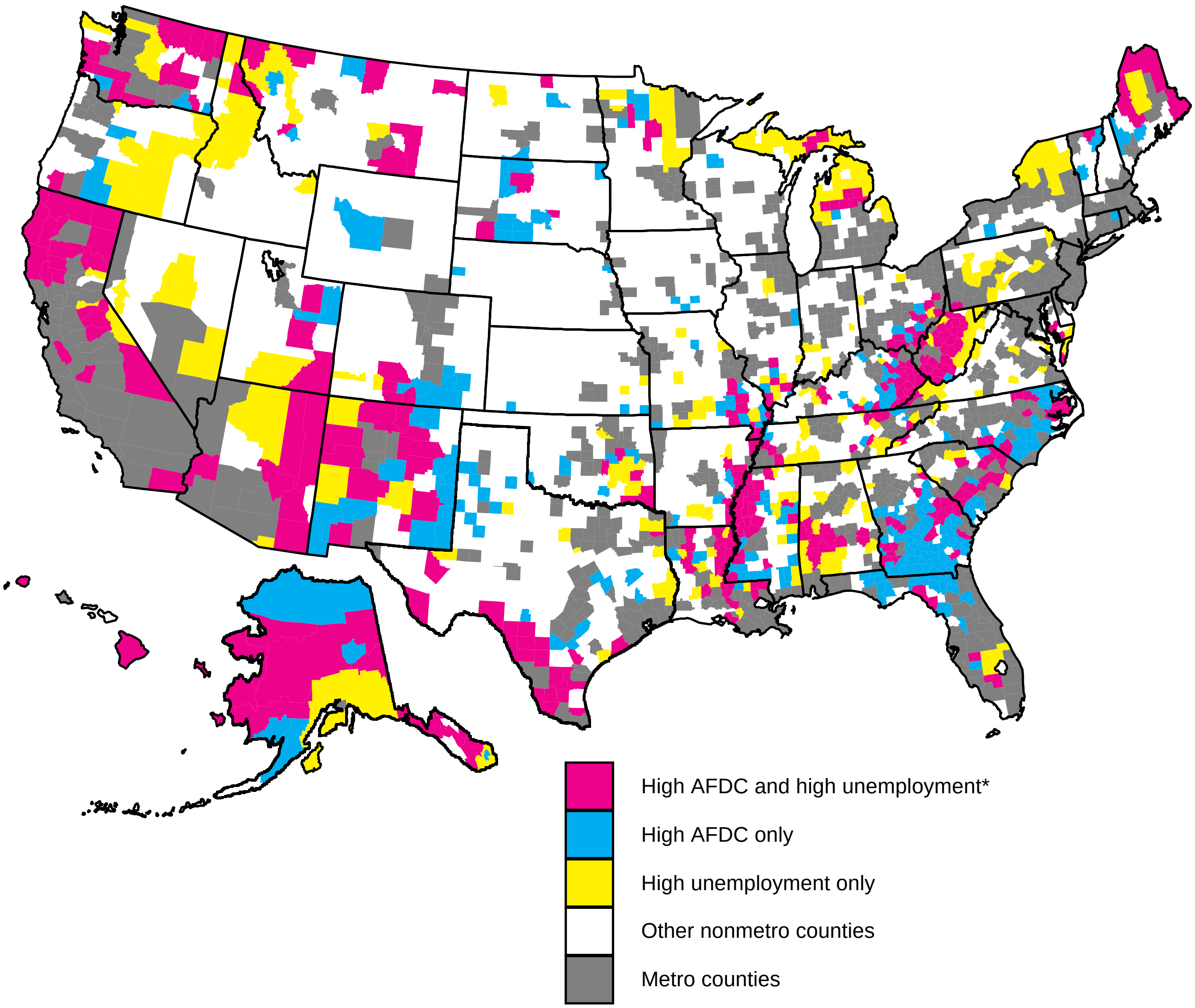
Provisions for Funding Welfare-to-Work

Congress voted $3 billion for the new Welfare-to-Work program, to be divided between fiscal years 1998 and 1999. A small amount was set aside for participating Indian tribes (1.0 percent), evaluation (0.8 percent), and performance bonuses to be distributed in fiscal year 2000 to successful States ($100 million). The remainder was to be divided between formula grants to the States and competitive grants to local communities.

Seventy-five percent of these remaining funds will go to the individual States, Commonwealths, Territories, and the District of Columbia. Allocations will be made according to a formula that gives equal consideration to a State’s share of the total number of poor people nationally and the number of adult recipients of TANF assistance (fig. 2). Each State must submit a plan for administering the Welfare-to-Work grant for approval by the Secretary of Labor and must provide $1 of non-Federal funding for every $2 of Federal funds. Governors are responsible for administration and for coordinating with the separate TANF block grants.

The States must direct 85 percent of the grants to local private industry councils (established under the Job Training Partnership Act and called workforce development boards in some places). These councils, in combination with the chief elected officials, are responsible for overseeing or administrating programs within geographical jurisdictions known as service delivery areas. At least 50 percent of the allocations to these delivery areas must be distributed to areas of high poverty. The other half is parceled out according to num-

Figure 1
Rural counties with high AFDC dependency and high unemployment rates, 1995
Over 60 percent of high welfare-dependent counties also have high unemployment rates



* High equals top 25 percent of U.S. counties.
Source: Estimated by ERS using data from 1990 Census, Bureau of Labor Statistics, Bureau of Economic Analysis, and Social Security Administration.

bers of adults receiving TANF assistance for 30 months or more and the number of unemployed.

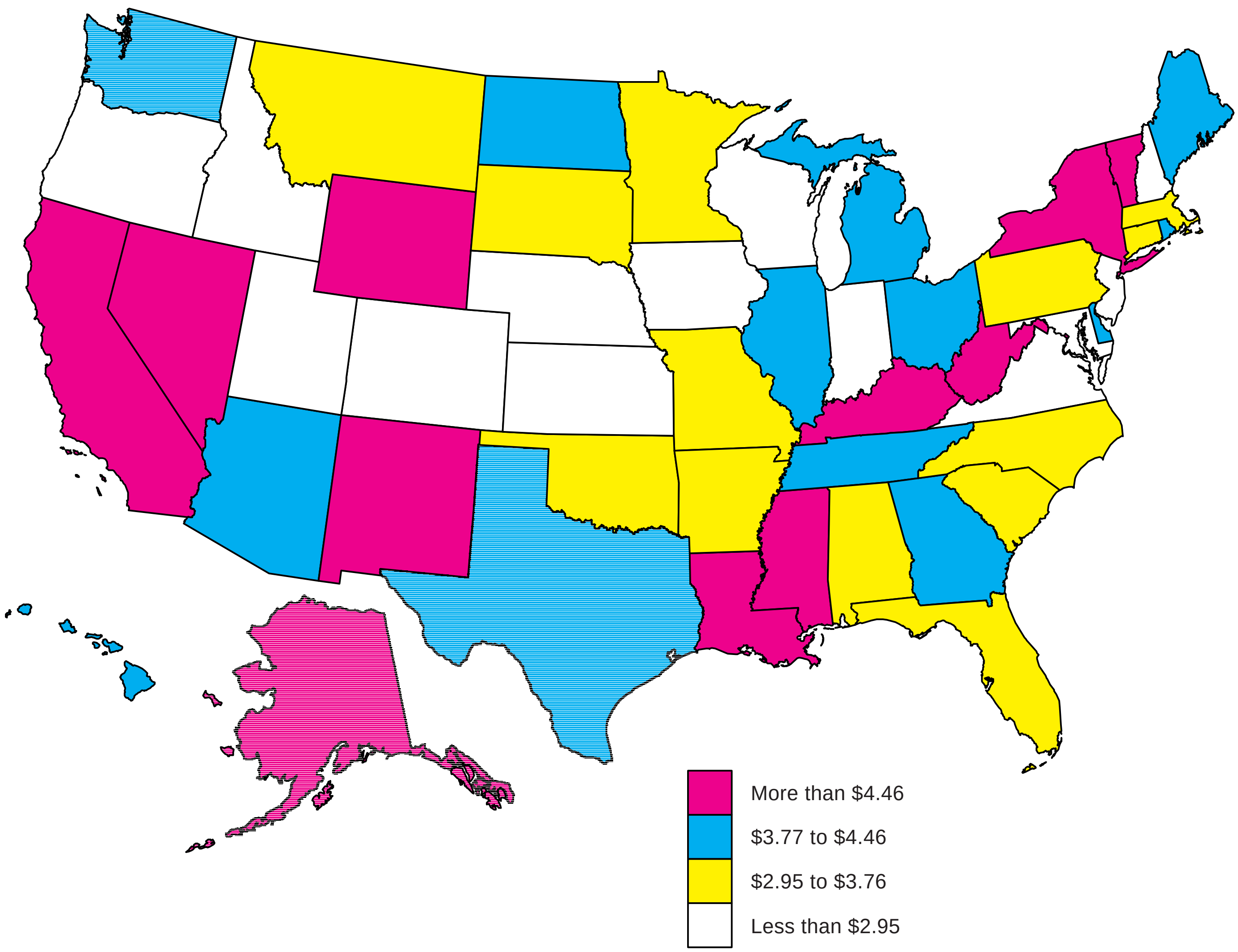
The Secretary of Labor, in consultation with the Secretary of Health and Human Services, the National Governors' Association, and the American Public Welfare Association, will develop performance measurements on the basis of job placement, duration of that placement, increase in earnings, and similar factors which will be used to distribute the performance bonuses to States in fiscal year 2000, if the program funding is extended.

Local governments, private industry councils, community action agencies, and other private entities may compete for grants from the 25 percent of funds not allocated by formu-

Figure 2

Welfare-to-Work State formula grants, per capita, fiscal year 1998

Largest per capita grants go to States in Appalachia, the gulf coast, and the western regions



Source: Calculated by ERS using 1998 funding estimates from the U.S. Department of Labor and 1996 population estimates from the Bureau of the Census.

la to the States. Areas with high concentrations of poverty will be given special consideration by the Secretary of Labor.

Welfare-to-Work Grants Should Help Welfare Recipients Find and Retain Jobs

Welfare-to-Work grants are directed toward the very core of the unemployed and welfare recipients. A minimum of 70 percent of any grant—whether State formula or competitive—must target individuals who are long-term welfare recipients, who will lose TANF benefits within a year, or who are noncustodial parents of minors whose custodial parent meets these criteria. In addition, the individual who fulfills one of those requirements must also face two out of three additional barriers: (1) lack of high school diploma or GED and low reading or math skills, (2) require substance abuse treatment for employment, and (3) poor work history. The other 30 percent of the grant may be used to help individuals, such as recent recipients of TANF who have characteristics of long-term dependency, such as school dropout, teen pregnancy, or poor work history.

Many residents of rural areas—whether “up the hollow” in Appalachia, in the rickety shacks of the Black Belt or Mississippi Delta, or in migrant labor camps—meet these criteria. The problem faced by States, private industry councils, and other entities is how to use Welfare-to-Work grant funds. Initiative and imagination can be rewarded. The goal is to create jobs and to place welfare recipients in those jobs. This may require public- or private-sector wage subsidies, teaching good work habits, on-the-job training, placement and post-employment services, community service jobs if necessary, and counseling support for job retention.

Welfare-to-Work grants may well be considered a lifeline thrown out to those individuals on whom most of society has given up. States are moving to qualify for these grants.

Other Welfare Modifications

The Personal Responsibility and Work Reconciliation Act of 1996 (P.L. 104-193) did not specifically address whether Federal labor laws covered welfare recipients who entered the workplace. Early in 1997, the *Washington Post* wrote of instances of hotel workers who received $30 a week in wages, in addition to welfare benefits of $410 a month. Employers argued that they could not otherwise take on the burden of unskilled new employees without this monetary advantage. Their opponents responded that this system created two classes of workers and provided employers with the temptation to fire regular employees and replace them with welfare recipients. To remove any confusion, the Department of Labor issued a guideline on May 22 which said that labor legislation did indeed apply to welfare recipients entering the workplace. These included the Fair Labor Standards Act—covering minimum wages and child labor for example—the Occupational Safety and Health Act, unemployment insurance coverage, and the various antidiscrimination acts.

Recognizing the financial problems of many families with children whose income was too high to qualify for assistance but too low to be able to afford medical insurance, the Federal Government moved to give the States $20 billion over 5 years to expand Medicaid coverage, buy private insurance policies, or as New York and seven other States had already done, set up their own programs.

The Balanced Budget Act of 1997, along with establishing the Welfare-to-Work program, also modified sections of P.L. 104-193. It restored Supplemental Security Income (SSI) cash benefits to legal immigrants resident in the United States on August 22, 1996, who were disabled at that time or became so later. It decreed that Medicaid coverage would be continued for disabled children who might have lost SSI benefits as a result of eligibility changes under P.L. 104-193. It permitted States to exempt from work requirements up to 15 percent of able-bodied food stamp recipients ages 18 to 50 who have no dependents. It also forbade States from assigning to private entities the responsibility of deciding who is eligible for food stamps or Medicaid.

Funding for Job Training Partnership Act (JTPA) programs has been increased by $518 million above last year’s total. JTPA programs include Adult Job Training ($955 million), Youth Training ($130 million), Summer Youth Employment ($871 million), Dislocated Workers ($1.4 billion), and Job Corps ($1.2 billion). Although they are not welfare programs, these programs should complement the new welfare-to-work program since they provide valuable training and job experience to help economically disadvantaged individuals, including welfare recipients. Also complementing the welfare-to-work transition are the tax changes benefiting low-income populations (see article on Tax Policy). *[Lowell Dyson, 202-694-5348, lkdyson@econ.ag.gov]*

Welfare-to-Work Grants as Contained in Balanced Budget Act of 1997
Key Provisions

Supplements to TANF for the hardest-to-employ welfare recipients

Target the estimated 20 percent of welfare recipients most at risk of long-term dependency.

Provide a “Work First” approach, including employment activities such as work experience, on-the-job training, and subsidized employment.

Provide supportive service such as child care, substance abuse treatment, emergency or short-term housing assistance, and transportation assistance.

Provide subsidized transitional work.

Funding

$1.5 billion earmarked in each fiscal year 1998 and 1999.

Nearly 75 percent of total goes to States by formula.

Nearly 25 percent goes as competitive grants directly to local governments, private industry councils, and private entities.

One percent set aside for Indian tribes, 0.8 percent for evaluation, $100 million for performance bonuses to successful States.